country's ranking on the scale of wealth and the country's ranking on the development index is perhaps the most interesting aspect of the UNDP re-port. Canada, for example, enjoys the highest development rank on the in-dex but comes in 13th in GDP per head, whereas Singapore's per capita GDP is fourth and its index ranking is 22nd.

These differences can be explained by a nation's social policies. As the report accompanying the index suggests, countries don't need unlimited income to reach respectable levels of development. Qatar, with a GDP of $20,987 per head, ranks no higher on the development scale than Slovakia, whose per-capita income is only $7,910. Comparisons like these are intended to help development advocates pressure reluctant and or overburdened governments to advance progressive social programs. In the end, the argument goes, will is more important than capital.

Many poorer countries, despite limited resources, have done a better job of eradicating illiteracy than Egypt. Egypt spends too much money on secondary and university education, said Heba Handoussa, director of the Egyptian Economic Forum, and not enough on universal basic education. Egypt is particularly weak on girls' education. In Egypt, as in all other Middle Eastern countries, women have less access than men to education and employment. "On the whole, Egypt is not doing as well having women catch up," Handoussa said.

On the positive side, Egypt's population policy has achieved remarkably swift success, which might help the nation close the education gap. In the future there will be fewer children to flood classrooms, Handoussa said. There will also be fewer children in families, which means families will be able to afford to send more of them to school. The result could be more widespread and better education.

Egypt's own development statistics clearly show a large variance in living standards among governorates. Rural Upper Egypt is much worse off than urban centers, and the government must resign itself to spending more on social services there if it wants to make a difference. "It needs to work on several fronts simultaneously," Handoussa said. "It can't just build more schools, but needs to create cultural incentives for families to send girls to school."

Providing health care and services to women in the countryside is also not as simple as funneling in cash. For example, women doctors are needed to break the barrier that prevents mothers and pregnant women from seeking health care. "The options for policymakers are very clear," Handoussa said.

But Mohamed Abdel Fadil, head of the economics department at Cairo University, argued that even the UNDP index doesn't necessarily provide a complete picture of a country's standard of living. Abdel Fadil, who has examined the human development index over time, said statistics like GDP per capita, for example, conceal the depth of some people's poverty. And measures of gross enrollment in primary, secondary and tertiary education don't account for the quality of that education. These weaknesses, he said, make the index a poor yardstick for comparing countries.

But since the UNDP's methodology is constant, Abdel Fadil said, the index can meaningfully measure the progress of a given country over time. Viewed this way, Egypt made the second-fastest progress from a low to medium level of human development between 1975 and 1997. Egypt, Abdel Fadil said, is doing well among second-tier emerging markets. According to Alaa El-Shazly, an economist at the World Bank in Cairo, Egypt's GDP per capita was $1,200 in 1997 (at current prices). "Though standard of living is [only] improving slightly, there is a real feeling that economic life is changing in Egypt," he said. ●

AZADEH MOAVENI

**BAD MARKET, DEAL STRUCTURE BLAMED**

# Lakah offer underperforms

Lead manager Nomura billed the initial public offering of shares in the Lakah Group as Egypt's largest IPO to date. But when the offering for the Holding Company for Financial Investments, as Lakah is formally known, closed in late July, only 35 million of a possible 57.5 million shares had been sold, and at a price almost 10 percent below the indicative price range Nomura set.

In the end, the $102 million raised left the transaction firmly on average ground. Michael Boardman, director of equity capital markets at Nomura, said there had been plenty of demand to cover the full issue. "However," he said, "there was an issue of price sensitivity and quality of demand." As a result, Boardman said Nomura and Lakah decided to restrict allocation to "higher quality" investors, mainly institutions, and at a price that would leave something on the table for buyers.

Despite the conservative allocation, the price of Lakah's global depository receipts, which is how the shares were sold, didn't hold. By Aug. 18, it had fallen to $8.23 – a drop of more than 6 percent from the July 29 offering price of $8.79, more than twice the fall in the blue-chip EFG Index over the same period.

"This is a failure," said one market observer. "I think what that's telling you is it was the wrong deal at the wrong price."

Nomura's inability to sell Lakah's shares at their indicative price, understandable given the lack of demand for Egyptian equity this year, proba- ▶

bly wouldn't have drawn such harsh reactions had the deal not been marketed so aggressively. Aside from the largest-ever claim, it seemed arrogant to attempt to bring Lakah from obscurity to the pinnacle of Egyptian equity issues in just two months, especially considering investors' lack of interest in the market. Lakah's profit projections were seen as vague and overly aggressive, and the indicative price range was seen as unreasonably high.

"It had all the appearances of greediness," the market observer said. Added another: "It was not presented in a way that was market-friendly."

Competitive sniping? Perhaps. The offering was twice oversubscribed. But observers generally agreed that a better-structured transaction would have found more success, and they said that companies planning offerings can draw lessons from the way the Lakah deal was handled.

Success is an absolute thing as well as a relative thing, and in the end it's a real achievement that an Egyptian company as little-known as Lakah could tap the global markets for $102 million. For investors, the best part of the deal was Lakah's health care business. Carl Baker, a board member and director of investor relations at Lakah, said Egypt needs to more than triple its current stock of 125,000 hospital beds to meet the minimum standards of the World Health Organization. Much of the unmet need involves rich-country priorities like cancer and heart disease, said Robert Hindle, deputy representative of the World Bank in Egypt. And the government understands that much of the needed capacity will have to be built and managed by private operators. Bankers said investors bought the story that Lakah – which builds, operates and equips hospitals – is well positioned to take advantage of the sector's growth.

The problem was that Lakah's interesting health business is strapped to unappealing industrial activities and lumped into a holding-company structure that investors would rather not pay for.

LEILA GORCHEV

VITAL SIGNS MIXED: Lakah succeeded in raising $102 million, but its GDR price is falling.

"People don't want to see a medical business mixed up with a property business," one banker said. "The market wasn't very receptive to that kind of mixed bag."

The holding-company structure is extremely popular in Egypt, where companies tend to be wildly diversified. But elsewhere, it's regarded with suspicion. The U.S. stock market, the world's top performer, has been driven up by companies relentlessly pursuing market dominance in a coherent line of business. Asia's markets, on the other hand, were brought down in part by the irrational horizontal expansion of murky conglomerates. As a result, bankers said, investors worldwide demand a discount for holding-company equity.

The presence of a steel company among Lakah's holdings was particularly unattractive. The industry is suffering from overcapacity worldwide, and the rating on bonds issued by the state-owned Steel Authority of India Ltd. has recently been downgraded. The same bias hurt this summer's $90 million GDR offering by Al Ezz Steel Rebars, of which only about $6 million was placed abroad. Raed El Beblawy, board member in charge of finance for the Ezz Group, said foreign investors are paying more attention to the industry's global downturn than to its prospects in Egypt, where it is growing faster than the economy as a whole.

"Most people who we met with were very enthused about the health care side, but not the industrial side," Baker said. "They wanted it to be 100 percent."

Baker said a number of reasons prevented Lakah from stripping down to the health care business. The industrial side represents about 40 percent of the group's sales, and adds cash flow and asset value. Additionally, cultural biases in the Middle East favor companies with clear assets like factories. Unable to remove the offending industries, Baker said Lakah and Nomura decided to adjust the price. Considering this context, El Beblawy said, Lakah's ability to place virtually the whole issue abroad should be considered a success.

Another of Lakah's problems was that investors weren't clear how the capital raised in the offering would be spent or how Lakah would manage live up to its claim that it would nearly double its net profits to £E 167 million in 1999 from the year before. "It couldn't be modeled," one analyst said.

Baker said Lakah intends to use up to $45 million of the new funds to set up a joint venture with or acquire a medical consumables company – one that deals in items like bandages and syringes, which are in short supply ▶

regionwide. Baker said Lakah's consumables operation will get support from the company's medical equipment distribution network, which already counts more than half of the hospitals in the Middle East and North Africa as customers. Lakah will spend the remainder of the funds to centralize the group's various leasing operations under one division and then expand its activities.

Still, bankers said investors tend to see aggressive profit forecasts as a negative. Investors also don't like to see the selling company's shareholders preparing to cash in, as Lakah's family shareholders initially were. As the deal was structured, Lakah would have sold 35 million new shares and as many as 22.5 million existing shares. The sale of new shares would have raised money for the company. The sale of existing shares would have raised money for the Lakahs themselves. Investors balked, and the tranche of existing shares was ultimately cut from the deal.

The final problem was timing. Not only was the Egyptian market struggling this summer under the weight of a liquidity shortage, growing doubts about the pound and a two-year history of negative performance, but Asian emerging markets were showing signs of sustained recovery. Foreign investors, who haven't been interested in Egypt for months, had even less reason to take a look. "The capital flows into Egypt and the Middle East are quite low," said the market observer. "There's not that much interest in the market right now."

The question, then, is why Nomura and Lakah pushed ahead. It could be that with Egypt's full offerings schedule – the state power and telecommunications companies, Orascom Telecom and Ghabbour are expected to come to market before the end of the year – they were concerned that the offering and Lakah's expansion plans could be delayed into the new millennium. But Baker said the group felt no particular pressure to move ahead. "There was no reason for us not to continue," he said. "Nobody asked that question."

Somebody probably should have. Bankers said the transaction would have benefited from better groundwork, structuring and pricing, all of which take time. The message for future offerings, they said, is clear.

"Deals coming out of Egypt have to be well structured, precise, very coherent in the story they're telling," the investment banker said. "Some clearly defined business focus is important." ●

ANDREW DOWELL

**NEW BARRIERS REJECTED**

# Egypt's antidumpers show restraint


TOSHIKI SENOUE

TREADING CAREFULLY: Egypt's trade remedies authority has been slow to act on local allegations of unfair trade practices.

Despite the flurry of rulings in early August on antidumping complaints, don't strain yourself looking for the trade war raging in Egypt. Ground rules for applying trade remedies may be sufficiently broad, in the words of one expert on international trade regulation, to find unfair trade practices at work almost anywhere, including "coach fares and senior citizen discounts." And Egypt's trade deficit may be swelling. But the state hasn't taken the bait, and has actually proven less than friendly to industries' requests for protection.

"They do a better job of handling the complaints here than in the U.S.," he said. "It's not subject to overt manipulation by industries."

In a single week in August, the Anti-Dumping, Subsidies & Safeguards Department at the Ministry of Trade issued rulings in cases involving alleged predatory pricing of sugar, fertilizer, candy, shoes and a host of other commodities. In all but one instance – Brazilian sugar imports, whose case the department forwarded to the minister for a ruling it expected by the end of August – the department found ▶

helping produce a critical victory over inflation, and observers said the government does not seem to have a vision of how to move beyond it. Outright devaluation is seen as more likely to trigger panic than to reduce demand for dollars, and the depreciation of the euro has put on hold discussions of adding flexibility by tying the pound to a trade-weighted basket of currencies.

Defenders of the current system will find ammunition in recent figures, which show that the imbalance underlying the pressure on the pound is beginning to take care of itself. According to the Central Bank, the current account deficit narrowed to $1.3 billion, or 1.5 percent of GDP, in the first nine months of fiscal year 1999 from $1.8 billion in the year-before period. The government, having preserved the dollar-pound link through the worst of it, appears committed to wait out the rest of the troubles. "If I'm seeing some positive changes in the future, why should I devalue today?" the government official said.

Certainly, there's no hurry. Even in their relatively depleted state, Egypt's net international reserves are sufficient to cover 13 months worth of imports. "They've got plenty of time," Swinscoe said.

That said, October would be a suitable month for reflection and reevaluation. President Mubarak will be safely in office, the expected Cabinet reshuffle will have passed, figures from the summer tourism and remittances season will be in, and the import restrictions should be showing their effectiveness. Equally important, foreign and domestic investors will be waiting for a clear message.

The alternative is to continue muddling through. Investors, however, are already worried about getting stuck in Egyptian pounds. If the key issue of convertibility isn't addressed, Sonntag said, "This concern is going to grow." ●

ANDREW DOWELL

NORBERT SCHILLER

DEVELOPMENT CAP: Economic progress hasn't meant improvements in basic education.

THE UNDP REPORT

# Development lags income growth

When the United Nations Development Program published its Human Development Index in August, neither the Americans nor the Japanese were exactly losing any sleep awaiting the results. For wealthy industrialized countries, this particular measure of economic and social progress doesn't highlight any truths or present any development conundrums. For newly industrialized and developing countries, however, the ranking poses the most pressing questions of the day – whether wealth is growing equitably, and whether social policies are effectively channeling new wealth to promote development.

The report's dark general conclusion is that economic gains and access to technology worldwide are the domain of a privileged few, and that the job insecurity and reduction of subsidies that typically accompany economic restructuring are offsetting the benefits of economic growth. Without correction, the report argues, social marginalization will grow and a rejection of globalization will ensue.

For Egypt this year, the numbers are not a cause for celebration. Egypt dropped one spot down from last year to 120 out of 174, with 174 being the worst. This ranking left Egypt well behind regional peers Libya (65), Lebanon (69), Jordan (94), Algeria (109) and Syria (111). Of the Arab countries on the list, only Iraq and Morocco ranked worse.

According to analysts, Egypt's progress in development is out of step with the country's income level. The government could have distributed its social services more effectively, they said – especially in education, the main indicator pulling down Egypt's overall rating.

The Human Development Index aims to produce a more accurate picture of living standards than the conventional standard of per-capita gross domestic product. Each year, the index looks at life expectancy, income, adult literacy and enrollment in primary, secondary, and higher education. Wealthier countries generally fare better on the ranking than poorer countries, but the variance between a ▶